

**PUBLIC DISCLOSURE**

**May 29, 2012**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**BLUE HILLS BANK**

**90160**

**1196 RIVER STREET  
BOSTON, MASSACHUSETTS 02136**

**Division of Banks  
1000 Washington St, 10<sup>th</sup> Floor  
Boston, Massachusetts 02118**

**Federal Deposit Insurance Corporation  
350 Fifth Avenue, Suite 1200  
New York, New York 10118**

<b>NOTE:</b>	This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.
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## GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution’s record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Blue Hills Bank (or the “Bank”)** prepared by the Division and the FDIC, the institution’s supervisory agencies as of May 29, 2012. The agencies evaluate performance in the assessment areas(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution’s branches. The Division and the FDIC rate the CRA performance of an institution consistent with the provisions set forth in Massachusetts regulation 209 CMR 46.00 and Appendix A to 12 CFR Part 345 of the FDIC’s Rules and Regulations, respectively.

### **INSTITUTION’S CRA RATING:**

**The institution is rated “High Satisfactory” by the Division.**

**The institution is rated “Satisfactory” by the FDIC.**

While both agencies agreed on the performance of Blue Hills Bank, the FDIC’s rating matrix does not have a rating of “High Satisfactory.” An institution in this group has a good record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Large Bank CRA examination procedures were used for this evaluation. The assigned rating is based on the results of three performance tests: the Lending Test, the Investment Test, and the Service Test. The Bank’s performance under each of these tests is summarized below:

Blue Hills Bank			
PERFORMANCE TESTS			
PERFORMANCE LEVELS	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory			
Satisfactory**	X		
Needs to Improve			
Substantial Non-Compliance			

\*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

\*\*Note: FDIC rules and regulations stipulate use of a high satisfactory and low satisfactory rating for the three tests. For purposes of this jointly issued public evaluation, the term “satisfactory” will be used in lieu of the “low satisfactory” rating for the lending, investment, and service test ratings.

***Lending Test: The institution's Lending Test performance is rated "Satisfactory."***

- The overall volume of the Bank's lending activity reflects adequate responsiveness to assessment area credit needs. Management made a directed effort to increase the Bank's loan-to-deposit ratio. However, despite an increase from 26.8 percent in June 30, 2009, to 40.1 percent as of March 31, 2012, it remains well below the loan-to-deposit ratios of institutions of a similar type and size that operate within the Bank's assessment area.
- The Bank originated an adequate percentage of its residential mortgage loans within its assessment area based on the number of loans originated. However, while the number of loans inside the delineated area remained relatively constant, the number of loans outside the area increased substantially between 2010 and 2011.
- Based on the area's demographic characteristics and the performance of all other HMDA-reporting lenders during 2010, the geographic distribution of the Bank's residential mortgages reflects an excellent dispersion of loans throughout the assessment area, including low- and moderate-income geographies.
- The distribution of the Bank's home mortgages by borrower income reflects an excellent penetration of borrowers of all income levels, including low- and moderate- income borrowers.
- The Bank has made an adequate level of community development loans.
- The Bank makes use of innovative and flexible credit programs to help meet the needs of low- and moderate-income geographies and borrowers.

***Investment Test: The institution's Investment Test performance is rated "Outstanding."***

- The Bank made an excellent level of qualified community development investments and grants. Qualified investments for the evaluation period totaled \$10.6 million. Total bonds and equity securities and equity investments totaled \$10.3 million and qualified CRA contributions totaled \$245 thousand.

***Service Test: The institution's Service Test performance is rated "Outstanding."***

- The Bank's delivery systems are accessible to essentially all portions of the assessment area. The Bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems. Services and hours of operations are tailored to meet the needs of the assessment area. In addition, the Bank is a leader in providing community development services.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Blue Hills Bank is a state-chartered, stock savings bank headquartered in the Hyde Park neighborhood of Boston, Massachusetts. The Bank is a wholly-owned subsidiary of Hyde Park Bancorp, a mutual holding company. The Bank also has three subsidiaries, HP Security Corporation, Park Security Corporation, and 1196 Corporation. None of these subsidiaries offer financial products or services to the general public. In 2010, the Hyde Park Bancorp established an additional subsidiary, the Hyde Park Charitable Foundation, Inc., a non-profit organization that provides charitable contributions to community-based organizations throughout the Bank's assessment area.

The Bank was founded on January 1, 1871, as Hyde Park Savings Bank and operated under that name until November 1, 2011, when it became Blue Hills Bank. The Bank currently operates from six offices: its main office is located at 1196 River Street in Hyde Park and branch offices are in Hyde Park, Brookline, Dedham, Norwood, and West Roxbury. The Bank's administrative headquarters is located at 320 Norwood Park South in Norwood. This office does not contain any retail banking facilities open to the public.

Blue Hills Bank has total assets of \$978.5 million consisting primarily of securities. Total assets increased 7.8 percent since the prior CRA evaluation conducted by the Division and the FDIC. The loan portfolio accounted for most of the asset growth, with loans secured by 1-4 family homes being the largest contributor.

The Bank's primary business focus is one-to-four family residential mortgage lending. Loans total \$310.8 million and account for 31.8 percent of total assets. Table 1 shows the composition of the loan portfolio.

<b>Table 1 Loan Portfolio Composition</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000's)</b>	<b>Percent of Total Loans</b>
Construction and Land Development	1,119	0.4
1-4 Family Residential	266,789	85.8
Multi-Family (5 or more) Residential	21,753	7.0
Commercial real estate	926	0.3
<b>Total Real Estate Loans</b>	290,587	0.0
Commercial and Industrial	13,117	4.2
Consumer	6,765	2.2
Other	383	0.1
<b>Total Loans</b>	310,852	100.0

Source: Report of Condition and Income (Call Report) dated March 31, 2012.

As the data in Table 1 shows, the Bank is primarily a residential real estate lender with 85.8 percent of all loans in mortgages secured by one-to-four family residential properties. These loans consist primarily of closed-end mortgages for the purchase and refinancing of residential properties but also include second mortgages and home equity lines of credit. Loans secured by

multifamily (five or more units) residential properties represent the next largest share of the loan portfolio with 7.0 percent. Commercial and industrial loans, which represent business purpose loans that are either unsecured or secured by assets other than real estate, are the third largest category of lending activity with 4.2 percent of the portfolio. Commercial real estate loans, which are typically collateralized by properties used for the borrowers' businesses, such as small office buildings, warehouses, or retail facilities, account for 0.3 percent of total loans. Consumer loans and other miscellaneous forms of credit make up the balance of the portfolio.

The FDIC and the Division last evaluated the Bank's CRA performance on June 22, 2009, and assigned a rating of "Satisfactory." The Bank was also evaluated as a large bank at the prior examination.

There are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area.

### **Description of Assessment Area**

The CRA requires a financial institution to define an assessment area within which its CRA performance will be evaluated. The Bank's assessment area, as currently defined, meets the technical requirements of the CRA regulation since it: (1) consists of one or more political subdivisions; (2) includes the geographies where the Bank's main office, branches, and deposit-taking ATMs are located, as well as the surrounding geographies in which the institution originated a substantial portion of its loans; (3) consists of whole census tracts; (4) does not extend substantially beyond state boundaries; (5) does not reflect illegal discrimination; and (6) does not arbitrarily exclude low- and moderate-income areas.

Blue Hills Bank has defined its assessment area as 8 neighborhoods in the City of Boston and 17 contiguous cities and towns. The delineated area encompasses a substantial portion of the City of Boston and the suburban area located to the west and south of the city along the I-95 corridor. The assessment area includes portions of Suffolk, Norfolk, and Middlesex counties and falls primarily in the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area ("MSA"). However, it also contains a small portion of the Providence-New Bedford-Fall River RI-MA MSA. Listed below are the communities that comprise the assessment area grouped by the MSA in which they are located:

- ***Boston-Quincy-Cambridge, MA-NH MSA:*** Brookline, Canton, Dedham, Dover, Easton, Medfield, Milton, Needham, Newton, Norwood, Randolph, Sharon, Stoughton, Walpole, and Westwood, and the Boston Neighborhoods of Dorchester, Hyde Park, Jamaica Plain, Mattapan, Roslindale, Roxbury, South Boston, and West Roxbury.<sup>1</sup>
- ***Providence-New Bedford-Fall River MSA:*** Easton and Mansfield.

The assessment area is highly diverse, with both urban and suburban characteristics. The eight Boston neighborhoods form the area's primary urban core. This portion of the area is densely

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1. The census tracts used by management to define these neighborhoods are as follows: South Boston – 0601.00–0612.00; Roxbury – 0801.00–0821.00; Dorchester – 0901.00–0924.00 and 1005.00–1009.00; Mattapan – 1001.00–1004.00 and 1010.01–1011.02; Roslindale – 1101.00–1106.02; Jamaica Plain – 1201.01–1207.00; West Roxbury – 1301.00–1304.02; and Hyde Park – 1401.02–1404.00.

populated and contains all of the assessment area's low- and moderate-income census tracts. The communities outside of Boston are more suburban in character and are comprised of middle- and upper-income geographies. Table 2 summarizes the area's pertinent demographic information.

<b>Table 2 Demographic Information</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	179	13.4	22.9	28.5	35.2
Population by Geography	808,711	9.2	21.2	27.1	42.5
Owner-Occupied Housing by Geography	172,570	2.5	12.4	30.8	54.3
Family Distribution by Income Level	197,067	8.6	19.6	27.2	44.6
Distribution of Low and Moderate Income Families throughout AA Geographies	73,790	18.2	32.5	26.2	23.1
HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		\$87,600 7.95%	Median Housing Value		\$280,116

Source: 2000 US Census and 2011 HUD updated MFI.

As the data in Table 2 shows, the area contains 179 census tracts. Of these, 24 are low-income, 41 are moderate-income, 51 are middle-income, and 63 are upper-income. All of the area's low- and moderate-income census tracts are located in the eight Boston neighborhoods, primarily Roxbury, Dorchester, and Mattapan. However, middle- and upper-income areas are located in Jamaica Plain, West Roxbury, Hyde Park, and Dorchester, mainly along Boston's border with Brookline, Newton, Dedham, and Milton. South Boston also contains several middle-income census tracts along Boston Harbor. All of the remaining cities and towns in the Bank's assessment area are made up entirely of middle- and upper-income geographies.

As shown in Table 2, the assessment area has a total population of 808,711. The population tends to be most densely concentrated in the more urbanized portion of the assessment area. The eight Boston neighborhoods alone account for over one-third of the assessment area's total population and just over three-fourths of its low- and moderate-income families.

The area's population resides in 314,604 housing units, 54.9 percent of which are owner occupied. However, the rate of owner occupancy within the assessment area varies by the degree of urbanization. Some census tracts within the eight Boston neighborhoods have owner occupancy rates below 5.0 percent. This contrasts with more suburban areas like Westwood and Newton where the rate of owner occupancy is typically over 70.0 percent.

The Bank operates in a highly competitive mortgage market. Aggregate Home Mortgage Disclosure Act ("HMDA") data for 2010 shows 435 lenders originated 48,214 home mortgage loans totaling \$66.7 billion within the Bank's assessment area. These lenders include other community banks such as Dedham Institution for Savings, The Cooperative Bank, Bank of Canton, and Randolph Saving Bank; larger regional lenders such as Salem Five Mortgage Company and Eastern Bank; and national banks including Bank of America, NA; JP Morgan Chase Bank, NA; GMAC Mortgage; and Wells Fargo Funding, LLC.

In fact, the assessment area's top ten lenders, all of which are banks and mortgage companies with nation-wide markets, accounted for 52.1 percent of all loans originated in the delineated area during 2010.<sup>2</sup>

Based on the area's demographic characteristics and the insight gained through discussions with management and a community contact, the assessment area has a growing need for affordable rental housing opportunities in the area, as rents have increased significantly in recent years. Aside from this, there is no one primary credit need. Instead, the area's residents appear to require a variety of affordable retail loan products to meet personal needs and an array of home financing programs for the purchase, construction, improvement, or refinance of a residence.

## **Scope of Evaluation**

The Division and the FDIC jointly assessed the Bank's CRA performance utilizing Large Bank CRA examination procedures. These procedures employ three tests to accomplish this: the Lending Test, the Investment Test, and the Service Test. The CRA evaluation considered all relevant activity from June 22, 2009, the date of the previous CRA evaluation, to May 29, 2012, the date of this evaluation. The applicable timeframes for the loan product line reviews used to measure the Bank's lending performance are described below.

Blue Hills Bank is primarily a residential lender with loans secured by residential real estate accounting for 92.8 percent of the Bank's loan portfolio. Management recently implemented plans to expand the Bank's small business and commercial lending. However, as of this examination date, this strategy has yet to have an impact on the Bank's balance sheet because these efforts are so new. Thus, since commercial real estate and commercial and industrial loans still constitute only a small proportion of the Bank's total loan portfolio, the bank's small business lending was not considered in this evaluation. Additionally, consumer loans were not considered in this evaluation since they also constitute a small portion of total loans. Farm loans were not considered since the Bank does not engage in agricultural lending. Consequently, this CRA evaluation is based on an analysis of the residential loan data for calendar years 2010 and 2011. The residential loan data was obtained from the Loan Application Registers ("LARs") maintained by the Bank pursuant to HMDA. The LARs contain data about home purchase loans, home refinancings, and home improvement loans secured by 1-4 family and multi-family (five or more units) properties. The Bank's 2010 home mortgage lending performance was compared against 2010 aggregate lending data within the assessment area. Aggregate data includes all financial institutions subject to HMDA that originated at least one home mortgage loan in the Bank's assessment area. The evaluation focused on the Bank's lending performance in 2010, as aggregate data for 2011 was not yet available.

The CRA evaluation also included the Bank's community development loans, grants, and services for the period June 22, 2009, through May 29, 2012. Qualified community development equity investments and deposits held by the Bank were also included regardless of investment date. The investments were valued at the May 29, 2012, book value. Demographic information referenced throughout the evaluation was obtained from the 2000 United States (U.S.) Census, unless otherwise noted.

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2. These institutions are Bank of America, NA; JP Morgan Chase Bank, NA; Mortgage Master, Inc.; Ally Bank/GMAC Bank; GMAC Mortgage Corp., LLC; Well Fargo Bank, NA; CitiMortgage, Inc.; Wells Fargo Funding, Inc.; Sovereign Bank; and US Bank, NA.



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

The institution's Lending Test performance was rated an overall "Satisfactory." The institution's lending efforts are rated under the five major performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, and Innovative or Flexible Lending Practices. The following information details the data compiled and reviewed, as well as conclusions regarding the Bank's performance under each criterion.

#### **Lending Activity**

The Bank's overall volume of lending activity represents an adequate responsiveness to local credit needs. The Bank's average net loan-to-deposit ratio ("LTD") for the preceding 12 quarters (June 30, 2009 to March 31, 2012) was 30.4 percent, a ratio that is low compared to the LTDs of other institutions of similar type and size, which typically fall in the 80.0 to 90.0 percent range. However, the Bank's quarterly LTD ratio has grown steadily from 26.8 percent as of the quarter ending June 30, 2009, to 40.1 percent for the quarter ending March 31, 2012. In a press release dated September 22, 2011, announcing the change in the Bank's name to Blue Hills Bank, management stated the following with regard to the Bank's balance sheet structure:

*Historically, Hyde Park Savings Bank took in deposits and invested in Wall Street, a practice that left us with one of the lowest loan-to-deposit ratios among Massachusetts community banks and one that left us with plenty of capital. But that's not community banking – and that does nothing for individuals and businesses that rely on local banks to meet their funding needs. As Blue Hills Bank, we'll be investing them in the community, by making more mortgages available, particularly to first-time homebuyers, and by serving the credit needs of small and mid-sized businesses."*

Market rank data for 2010 provides additional insight into the volume of the Bank's residential mortgage lending. In 2010, Blue Hills ranked 45<sup>th</sup> among the 435 HMDA reporting lenders that originated home loans in the assessment area with a 0.39 percent market share. Most of the lenders ranking higher than Blue Hills Bank were larger financial institutions and mortgage companies that operate on a regional or national basis. However, other locally-based institutions, including Dedham Institution for Savings, Bank of Canton, and Norwood Cooperative Bank also ranked higher.

#### **Assessment Area Concentration**

This performance criterion determines the proportion of the Bank's loans that were originated within the assessment area and evaluates its appropriateness. Based on a review of the home loan data, an adequate percentage of the Bank's lending activity occurs in the assessment area. Table 3 provides specific information regarding the distribution of loans inside and outside the assessment area.

Table 3 - Distribution of Loans Inside and Outside of Assessment Area										
Loan Type	Number Loans					Dollar Volume \$('000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2010										
Home Purchase	36	80.0	9	20.0	45	10,836	83.2	2,189	16.8	13,025
Refinance	131	85.1	23	14.9	154	38,096	78.6	10,368	21.4	48,464
Home Improvement	20	100.0	0	0.0	20	3,607	100.0	\$0	0.0	3,607
2010 Total	187	85.4	32	14.6	219	52,539	80.7	12,557	19.3	65,096
2011										
Home Purchase	66	53.7	57	46.3	123	25,951	43.8	\$33,355	56.2	59,306
Refinance	107	67.3	52	32.7	159	36,231	52.3	\$33,045	47.7	69,276
Home Improvement	13	81.2	3	18.8	16	3,283	64.8	\$1,784	35.2	5,067
2011 Total	186	62.4	112	37.6	298	65,465	49.0	68,184	51.0	133,649
Total Home Loans	373	72.2	144	27.8	517	118,004	59.4	80,741	40.6	198,745

Source: HMDA data for 2010 and 2011.

As shown in Table 3 the Bank originated 373 home loans totaling approximately \$118 million in the assessment area during 2010 and 2011. This represents 72.2 percent of the total number of home loans originated by the Bank and 59.4 percent by dollar volume. However, the percentage of home loans in the assessment area declined from 85.4 percent in 2010 to 62.4 percent in 2011 based on the number of loans originated. As the data shows, the volume of loans inside the assessment area remained fairly constant while lending outside the area increased substantially. This appears to be the result of the Bank's purchase of a portfolio of 115 loans totaling \$83.7 million secured by properties located primarily outside the assessment area.

### Geographic Distribution

The geographic distribution of loans was reviewed to assess how well the Bank is addressing the credit needs throughout the assessment area, particularly low- and moderate-income areas. Based on the review of the HMDA LARs, the geographic distribution of the Bank's loans reflects an excellent dispersion throughout the assessment area. Table 4 summarizes the distribution of the Bank's HMDA loans for calendar years 2010 and 2011 by census tract income level.

Table 4 - Distribution of HMDA Loans by Census Tract Income Level									
Loan Category	# of Bank Loans	Percent of Bank Loans				Percent of Aggregate Lending			
		Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
2010									
Home Purchase	36	8.3	11.1	50.0	30.6	3.6	14.2	34.6	47.6
Refinance	131	0.8	14.5	40.4	44.3	0.9	6.4	26.8	65.9
Home Improvement	20	0.0	5.0	60.0	35.0	1.4	7.3	28.2	63.1
Total	187	2.1	12.8	44.4	40.7	1.5	8.1	28.6	61.8
2011									
Home Purchase	66	0.0	25.8	30.3	43.9				
Refinance	107	2.8	29.0	32.7	35.5				
Home Improvement	13	0.0	7.6	46.2	46.2				
Total	186	1.6	26.3	32.8	39.2				
Owner-Occupied Housing Units	172,570	2.5	12.4	30.8	54.3				

Source: HMDA LAR and HMDA aggregate data for 2010 and 2011.

Table 4 illustrates that the geographic distribution of the Bank's residential mortgage loans in 2010 is generally consistent with the distribution of owner-occupied housing units within the assessment area but outperformed other HMDA-reporting lenders in low- and moderate-income census tracts. As might be expected, middle- and upper- income geographies, which respectively account for 30.8 percent and 54.3 percent of the area's owner occupied housing units, account for a majority of the Bank's home mortgage lending with 44.4 and 40.7 percent, respectively, of total mortgage originations. This contrasts with the other HMDA reporting lenders who originated 61.8 percent of all loans in upper income geographies and 28.6 percent in middle-income census tracts.

The data shows the Bank made 2.1 percent of all home mortgage loans by number in low-income census tracts, a volume only slightly below the 2.5 percent of owner-occupied housing units in low-income census tracts but above the 1.5 percent of loans originated in the same areas by all other HMDA-reporting lenders. The Bank's lending in moderate-income census tracts, at 12.8 percent, exceeds both the 12.4 percent of owner-occupied properties in moderate income geographies and the 8.1 percent aggregate level.

The number of loans the Bank originated in its assessment area during 2011 was nearly equal to loan volume in 2010. Residential mortgage activity in the area's low-income geographies declined from 2.1 percent to 1.6 percent of all assessment area loans, primarily as the result of the increase in lending in the moderate-income tracts.

Aggregate HMDA also provides another means to measure the Bank's lending performance in the geographic distribution of loans. Aggregate HMDA data for 2010 shows that a total of 741 loans were made in the area's low-income geographies by 116 lenders. The 4 home mortgage loans originated by the Bank ranks 37<sup>th</sup> overall and 10<sup>th</sup> among Massachusetts lenders with a 0.54 percent market share. The Bank's performance in moderate income geographies is considerably better. Aggregate data show that 3,927 loans were originated in moderate-income census tracts by 229 lenders. The 24 loans originated by the Bank ranks 30<sup>th</sup> overall and 5<sup>th</sup> among Massachusetts based institutions with a 0.61 percent market share.

Unlike the area's low-income geographies, the Bank's residential mortgage originations in moderate-income geographies more than doubled, increasing from 12.8 percent of all assessment area loans in 2010 to 26.3 percent in 2011, primarily as the result of substantial increase in both home purchase loans and home refinancings. Given the highly competitive nature of the assessment area, the Bank's performance in moderate-income geographies is noteworthy. As discussed later in this evaluation, this appears to be the result of the marketing and community outreach efforts instituted by the Bank's new management team as well as a complete inventory of credit products necessary to meet the needs of the homeowners and prospective home buyers in these areas.

### **Lending to Borrowers of Different Income Levels**

The distribution of loans by borrower income was reviewed to determine the extent to which the Bank is addressing the credit needs of the area's residents of all income levels regardless of property location. Based on the data provided by its HMDA LARs, the Bank has achieved an excellent penetration of loans among retail customers of different income levels, including the

area's low- and moderate-income borrowers. Table 5 shows the distribution of loans by borrower income.

Table 5 Distribution of HMDA Loans by Borrower Income Level									
Loan Category	# of Bank Loans	Percent of Bank Loans				Percent of Aggregate Lending			
		Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
2010									
Home Purchase	36	5.7	16.7	38.9	36.1	3.6	18.2	21.6	41.6
Refinance	131	2.3	19.8	27.5	47.3	1.8	8.8	19.2	54.8
Home Improvement	20	10.0	10.0	30.0	50.0	6.0	13.6	22.8	50.9
Total	187	3.7	18.2	29.9	45.4	2.3	11.0	19.8	51.8
2011									
Home Purchase	66	13.6	25.8	12.1	48.5				
Refinance	107	4.7	12.2	23.4	40.2				
Home Improvement	13	0.0	23.1	15.4	61.5				
Total	186	7.5	17.7	18.8	44.6				
Percent of Families	197,067	8.6	19.6	27.2	44.6				

Note on Percentages: Percentages do not include borrowers whose income was not available.

Source: HMDA LAR and HMDA aggregate data for 2010 and 2011.

As Table 5 shows, the proportion of home mortgage loans in 2010 to low-income borrowers, at 3.7 percent, was below the 8.6 percent of low-income families in the assessment area but well above the 2.3 percent of home mortgages originated to low-income families by all other HMDA-reporting lenders. However, the low proportion of home mortgages to low-income families can be expected due to the very low incomes involved. Based on 2000 census data, 8.0 percent of all families (92.1 percent of all low-income families) in the area are below the poverty level.

Home mortgage activity among moderate-income families shows a different pattern. At 18.2 percent of all loans in the assessment area during 2010, the proportion of residential mortgages originated by the Bank to moderate-income families is well above the 11.0 percent aggregate level and only slightly below the 19.6 percent proportion of moderate-income families in the assessment area.

The proportion of home mortgage loans originated by the Bank to low-income borrowers increased substantially during 2011, particularly in the home purchase category where the proportion of total home purchase loans, at 13.6 percent, exceeded the 8.6 percent proportion of low-income families in the local population. Home refinancings among low-income borrowers also increased from 2.3 percent in 2010 to 4.7 percent in 2011, while home improvement loans declined from 10.0 percent to 0.0 percent.

Home mortgage lending to moderate-income borrowers declined slightly overall during 2011 but remained relatively constant compared to the proportion of moderate-income families in the assessment area. However, home purchase loans increased from 16.7 percent during 2010 to 25.8 percent in 2011, a level where it exceeded the percentage of moderate-income families in the area. Home refinancings among moderate-income families declined from 19.8 percent in 2010 to 12.2 percent during 2012 but home improvement loans to moderate-income families increased from 10.0 percent to 23.1 percent.

Several factors appear to contribute to the Bank's success in originating residential mortgages to the area's low- and moderate-income families. First, the Bank has begun to actively participate in several publicly-sponsored loan programs for low- and moderate-income home buyers. These include Massachusetts Housing Finance Agency (MHFA) loans which provide competitive terms for loans with higher loan-to-value ratios than are available with conventional financing; the City of Boston's Cash to Closing Program which provides closing cost and down payment assistance to income-eligible home buyers; and the Mass Housing Partnership's Soft Second program that contains a number of attractive features for low- and moderate-income home buyers. The Bank has also introduced a first time home buyer program that offers a 40-year mortgage priced at the rate of a 30-year fixed rate loan. Additional information regarding these lending programs is provided under the *Innovative or Flexible Lending Products* section of this evaluation.

### **Community Development Lending**

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

Blue Hills Bank has made an adequate level of community development loans. In making this determination, consideration was given to the Bank's lending focus. The Bank is not heavily engaged in commercial lending, and they make few multi-family loans. Thus, they may not have as many opportunities to identify community development lending needs within the communities they serve. However, the Bank has identified two loan funds and an initiative to protect seniors as viable ways to extend credit to support community development projects. Descriptions of these lending activities are provided below.

#### **Boston Community Loan Fund**

The Bank has invested a total of \$2 million in this loan fund. The Bank has not increased the amount invested since the previous examination. The fund is administered by Boston Community Capital, a certified Community Development Financial Institution (CDFI). As a CDFI, Boston Community Capital serves as a financial intermediary between institutions and individuals seeking to invest in community development projects throughout the greater Boston area, including the Bank's assessment area. Based on the quarterly data provided, the Bank's pro-rata share of loans originated from the third quarter of 2009 through the first quarter of 2012 totaled \$9.7 million. The loans made through the fund were used for community development purposes such as rehabilitating residential properties, some of which were foreclosures, to be used for affordable housing and supporting organizations that provide community services for low- and moderate-income families. During the evaluation period, one of the projects funded with the Bank's investment was a mixed-use, mixed-income development in Jamaica Plain which will include 16 affordable condominium units.

### Solomon Hess SBA Loan Fund

The Bank has committed a total of \$500,000 to this loan fund, which invests in the federally guaranteed portion of SBA 7(a) loans. As stated in documents provided by the Fund, its primary goal is to promote permanent job creation, retention, and improvement in low- or moderate-income areas or for low- and moderate-income persons who are employed by small businesses by creating greater financial liquidity and a lower cost of capital within the Small Business Administration (SBA) Section 7(a) loan secondary market. During the evaluation period, two projects were funded with the Bank's investment: a music store located in a moderate-income census tract in Jamaica Plain and a construction company in Canton in an economically targeted area that employs low- and moderate-income workers.

### Senior Housing Crime Prevention Foundation (SHCPF)

Since 2008, the Bank has annually renewed a \$1 million loan to the SHCPF for use towards its overall mission, which as stated on the Foundation's website is "to provide safe and secure living environments for senior housing residents through the provision of the Senior Crimestoppers program and to allow banks the most favorable regulatory and business structure possible for the purpose of fulfillment of CRA obligations and retail banking opportunities."

### **Innovative or Flexible Lending Practices**

The Bank has made use of innovative or flexible loan products during the evaluation period. The Bank offers three innovative or flexible loan programs and one down payment and closing cost assistance program. The loans made under the three loan programs were required to be reported on the Bank's HMDA LAR and, therefore, were considered in the earlier sections of the Lending Test. All four programs the Bank offered during the evaluation period are described below.

- *40 Year Fixed Rate First-time Homebuyer Program:* This program was developed by the Bank to assist first-time homebuyers. The program features a reduced fixed interest rate, no points, and reduced closing costs. The program is available to first-time homebuyers for the purchase of 1-4 family, owner-occupied dwellings. The Bank originated a total of 20 loans under this program during the evaluation period: 12 in 2010 and 8 in 2012. The total dollar amount of these 20 loans was approximately \$5.8 million.
- *Soft Second Loan Program:* This program is a joint initiative of the public and private sectors to increase affordable housing opportunities for low- and moderate-income homebuyers. It combines a conventional first mortgage with a subsidized second mortgage to help first time homebuyers qualify for financing. The Bank originated 38 loans under this program during the evaluation period; 8 in 2009; 6 in 2010; 16 in 2011; and 8 in 2012. The total dollar amount of these loans was approximately \$4.1 million.
- *City of Boston Down Payment and Closing Cost Assistance Program:* Down payment and closing costs assistance is for lower income homebuyers who can afford monthly mortgage payments but cannot save enough to pay the initial home purchase costs. The goal of the program is to increase homeownership among lower income households. Funding comes from the federal government's American Dream Downpayment Initiative (ADDI) and other sources. ADDI is part of the federal government's HOME program, which gives money to state and local governments to create affordable housing for low-income households.

Through the program, “cities and towns and non-profit housing agencies throughout Massachusetts provide down payment and closing costs assistance to first-time homebuyers in their regions.” This assistance covers some of the costs that homebuyers must pay at the time they purchase their home. During the evaluation period, the Bank originated 9 mortgages to borrowers participating in this program for a total of \$37,802.

- Massachusetts Housing Finance Agency (MHFA): MHFA is the state's affordable housing bank. It supports the creation, preservation and long-term viability of affordable homeownership and rental housing opportunities for Massachusetts residents with modest incomes. The Bank offers all MHFA programs. The Bank originated 38 loans under this program during the evaluation period; 6 in 2009; 18 in 2010; 6 in 2011; and 8 in 2012. The total dollar amount of these loans was approximately \$9.2 million.

## INVESTMENT TEST

The Investment Test evaluates the institution's record of helping to meet credit needs through qualified investments that benefit the assessment area or a broader statewide or regional area that includes the Bank's assessment area. A qualified investment is defined as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Community development purposes include those that either: 1) provide affordable housing for low- or moderate- income individuals or areas; 2) provide community services targeting low- or moderate-income individuals or areas; 3) promote economic development by financing small businesses; or 4) revitalize or stabilize low- or moderate-income geographies. Activities considered under the Lending or Service Test may not be considered under the Investment Test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors. Per the regulation, qualified investments considered in this evaluation include all those acquired or made since the previous CRA examination as well as those made in prior periods and still held by the institution.

The Bank has an excellent level of qualified community development investments and grants, often in a leadership position, particularly those not routinely provided by private investors. During the evaluation period the Bank's qualified investments and charitable donations total \$10,561,585. This figure includes the current book value of existing qualified investments and grants made to qualified organizations during the time period of the examination.

Qualified bonds and equity investments total \$10,316,711 which represents 1.1 percent of total assets and 1.7 percent of the Bank's total investments of \$591 million as of March 31, 2012. This also represents a 26.0 percent increase since the last examination. While there have been no new investments since the last examination, the Bank invested additional monies into existing investments. Listed below are the Bank's qualified investments.

## **Qualified Investments**

**Access Capital Strategies Community Investment Fund, Inc., (ACSCIF)** - The ACSCIF is an SEC-registered fund structured as a business development corporation. The primary purpose of the fund is to provide a secondary market and financing vehicle for community development loans. The fund invests in private placement debt securities that support affordable housing, education, small business loan securitizations, and other job creating investments within a target region specified by the investing institution. As of March 31, 2012, the current book value is \$500,000.

**Community Capital Management CRA Qualified Investment Fund** is an open end fund investing in CRA sensitive debt securities supporting affordable housing, community services for low-income and moderate-income individuals, SBA eligible businesses or farms, and revitalization of low- and moderate-income income areas. As of March 31, 2012, the current book value is \$2.9 million, which is an increase since the previous evaluation when it was \$2.0 million. One of the loans made possible by the Bank's investment is a loan to a 56-unit development of low-income seniors in Canton.

**Massachusetts Business Development Corporation (MBDC)** was formed in 1953 to promote economic development in Massachusetts and assist small and middle-market companies in finding solutions to their capital needs through private, state, and federal programs. MBDC also participates in small business loans in conjunction with other banks and/or the Small Business Administration. As of March 31, 2012, the current book value is \$380,005, which is a \$230,000 increase since the previous evaluation.

**MB Capital Fund III, LLC** is a limited partnership managed by the Massachusetts Business Development Corporation. The objective of the partnership is to provide capital to established Massachusetts small businesses in the need of capital growth. As of March 31, 2012, the current book value is \$493,635.

**FNMA Pass-Through Certificates** are pools of government insured mortgages financing qualified residential properties in Massachusetts. As of March 31, 2012, the Bank had investments in 5 pools with a current book value of \$5,193,071. This is an increase from the previous evaluation when the Bank had \$4.4 million invested in 5 pools.

**Massachusetts Housing Equity Fund XIV** invests in low-income housing improvement projects and related commercial facilities in Massachusetts and in a limited number of commercial projects in economically disadvantaged neighborhoods in Massachusetts. The Bank has committed \$500,000 and as of March 31, 2012 the current book value is \$500,000.

**Massachusetts Housing Investment Corporation** finances the creation and preservation of affordable housing and community development activities that serve lower income populations, distressed communities and address community development needs. Blue Hills Bank has invested a total of \$350,000 in the form of LLC membership interests.



## Charitable Contributions

The Blue Hills Bank Charitable Foundation (or the Foundation) is designed to further the Bank's philanthropic and community-based mission to strengthen the communities and the residents who reside in them by providing funding to eligible non-profit organizations in their assessment area. It seeks to find opportunities to make valuable investments in non-profit organizations that support human services, affordable housing, and community development, the arts and education where this funding will yield significant results within the community. The Blue Hills Bank Charitable Foundation's grant-making process is conducted by its Board of Directors in an impartial manner based upon an evaluation of each project request.

The total amount of qualified CRA contributions made by the Bank and the Foundation from June 24, 2009 through May 29, 2012 was \$245,144 representing 44.9 percent of the Foundation's total contribution of \$546,249.

During the evaluation period, qualified CRA donations totaled \$245,144. Total contributions on a year-by-year basis are shown in Table 6.

<b>Table 6</b> <b>Community Development Grants and Donations</b>					
	<b>2009</b> <b>(6/24 – 12/31)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b> <b>(1/1 – 5/10)</b>	<b>Total</b>
The Foundation	\$11,025	\$42,575	\$128,994	\$62,550	\$245,144
Pre-tax Net Operating Income (NOI)	\$5,722,000	\$32,766,000	\$10,282,000	\$3,190,000	\$51,960,000
Donations/Pre-Tax NOI	<b>0.2</b>	<b>0.1</b>	<b>1.3</b>	<b>2.0</b>	<b>0.5</b>
# of Organization Benefiting	12	32	33	20	97

Source: Internal Bank Records

Table 7 details the Foundation's community development donations by category within the assessment area.

<b>Table 7</b> <b>Community Develop Grants and Donations by Category</b>										
<b>Community Development Category</b>	<b>2009</b> <b>(6/24 – 12/31)</b>		<b>2010</b>		<b>2011</b>		<b>2012</b> <b>(1/1 – 5/10)</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Affordable Housing	1	1,000	1	1,000	8	21,500	0	0	10	23,500
Community Services	9	8,775	25	26,325	25	107,494	19	52,550	78	195,144
Economic Development/Revitalization	2	1,250	6	15,250	0	0	1	10,000	9	26,500
<b>Total</b>	<b>12</b>	<b>11,025</b>	<b>32</b>	<b>42,575</b>	<b>33</b>	<b>128,994</b>	<b>20</b>	<b>62,550</b>	<b>97</b>	<b>245,144</b>

Source: Internal Bank Records

Examples of the organizations the Bank provided donations to include: West Roxbury Main Streets, Ensuring Stability Through Action in our Community (ESAC), the Massachusetts Affordable Housing Alliance, Boston Community Capital, the Urban League of Eastern MA, Inc., Community Servings, City on a Hill Foundation, and Mount Pleasant Home.

## SERVICE TEST

The Service Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income community development services.

### Distribution of Branches

The Bank's service delivery systems are accessible to essentially all portions of the assessment area. The Bank's corporate headquarters is located in Norwood, a middle-income census tract. The Bank currently operates 6 full-service branches located in Brookline, Dedham, Hyde Park (2), Norwood, and West Roxbury. The Bank's main office in Hyde Park is located in a moderate-income census tract. The remaining offices are located in middle- and upper-income geographies.

The distribution of branches and automated teller machines (ATMs) represents an adequate distribution throughout the assessment area. The table below compares the distribution of branches to the percent of census tracts in each income category and the percent of population within each tract category. As noted in the table below, none of the Bank's branches are located in low-income census tracts; 16.7 percent are located in moderate-income census tracts; 33.3 percent are located in middle-income census tracts; and 50.0 percent are located in upper-income census tracts.

<b>Table 8</b>						
<b>Distribution of Branches and ATMs</b>						
<b>Census Tract Income</b>	<b>% of Tracts</b>	<b>% of Population</b>	<b>Branches</b>		<b>ATMs</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	13.4	9.2	0	0.0	0	0.0
<b>Moderate</b>	22.9	21.2	1	16.7	2	25.0
<b>Middle</b>	28.5	27.1	2	33.3	2	25.0
<b>Upper</b>	35.2	42.5	3	50.0	4	50.0
<b>Total</b>	100.0	100.0	6	100.0	8	100.0

Source: Internal Bank Records

As noted in Table 8, the Bank has 8 ATMs located throughout the assessment area. All full-service branches have ATMs. The Bank's main office in Hyde Park and the West Roxbury branch also have a drive-up ATM. All ATM cards issued by the Bank provide access to local and national networks. The Bank is a participant in the SUM Program which provides surcharge-free automated teller machine service to Blue Hills Bank customers at the ATMs of participating institutions state wide.

### **Record of Opening and Closing Branches**

Since the previous CRA evaluation, the Bank has not closed any offices. However, the Bank did open its new executive office in Norwood on March 15, 2011. This office does not provide retail banking services to the public.

The Bank maintains a Branch Office Closing policy. The policy details the procedure the Bank will follow before opening and closing a branch office.

### **Retail Banking Services**

The Bank's retail services, including business hours, are tailored to the convenience and needs of the assessment area, particularly low- and moderate-income geographies and individuals. Branch hours are convenient and comparable to other institutions, and bank services are more than sufficient to meet the needs of the assessment area. All of the Bank's branches are open late on Fridays and open on Saturday.

The Bank offers a variety of financial services through its branch network designed to meet the credit needs of local residents. Deposit services include checking and savings accounts, money market accounts, certificates of deposit, certificate of deposit registry services, and individual retirement accounts.

The Bank also offers a variety of loan products. These include a variety of home mortgage programs with competitive rates and flexible terms such as fixed rate loans, adjustable rate loans, 40 year fixed rate "First Time Home Buyer" mortgages, Massachusetts Housing Program loans, Soft Second mortgages, residential construction loans, home equity loans, unsecured consumer installment loans, loans secured by Passbook savings account, and consumer overdraft protection.

### **Alternative Delivery Systems**

The Bank offers internet banking at its website [www.bluehillsbank.com](http://www.bluehillsbank.com). This service enables customers to view their savings, checking and loan accounts, monitor account activity, and to review statements and check to see which checks have been paid. Customers are able to transfer money between accounts, schedule recurring transfers, pay bills and stop payment on checks.

The Bank also offers telephone banking which allows customers quick access to automated account information, online banking and bill pay support, or place a check reorder. The automated telephone banking functionality includes account balances, transactions posted to accounts, funds transfer funds capabilities, and the ability to make loan payments.

## Business Banking Services

Blue Hills Bank offers a full-range of financial solutions tailored to fit local business needs. These include a comprehensive package of financial services including: business checking, small business checking, business money market savings, business savings, Not-for-Profit checking, and municipal checking. Business services include online banking, 24 hour telephone banking, and electronic bill pay. Business loans include commercial real estate business loans, SBA loans, commercial and industrial loans, lines of credit, overdraft protection, and MasterCard debit cards.

## Community Development Services

Blue Hills Bank is a leader in providing community development services. These services have resulted in a better educated community, increased awareness of community needs, and contributed to improving the communities served. The Bank's community development services are directed to low- and moderate-income residents of its assessment areas and provide technical assistance to organizations with a community development purpose.

<b>Table 9</b>	
<b>Community Development Organizations</b>	
<b>Community Development Category</b>	
Affordable Housing for Low- and Moderate	0
Promote Economic Development	6
Community Services Targeted to Low- and Moderate-Income	4
<b>Total</b>	<b>10</b>

Source: Internal Bank Records

Below are some examples of activities conducted and organizations that employees were involved in during the evaluation period. All of the services meet the definition of community development and also relate to the provision of financial services as required by the regulation for consideration under CRA.

<b>Qualified Community Development Services</b>		
<i>Community Organization</i>	<i>Organization Activity</i>	<i>Bank Participation</i>
Ensuring Stability Through Action in our Community (ESAC)	The organization assists homeowners with foreclosure prevention, aids seniors in repairing their homes and assists homeowners in obtaining low interest rate loans for lead removal.	The Bank CRA officer is the Treasurer and on the Board of Directors.
Massachusetts Community and Bank Council (MCBC)	The MCBC was established to encourage community investment in low- and moderate-income and minority neighborhoods.	The Bank CRA officer is on the Board of Directors.
Hyde Park YMCA	Hyde Park YMCA is dedicated to improving the health of mind, body, and spirit of individuals and families in our communities. We welcome men and women, boys and girls of all incomes, faiths and cultures.	A Senior Vice President of the Bank is a member of the Board of Directors.

<b>Qualified Community Development Services</b>		
Hyde Park Main Streets Committee	Hyde Park Main Street is a local non-profit organization dedicated to fostering and promoting a vital and thriving business district in Hyde Park.	A Bank Assistant Vice President and Senior Vice President serve on the Board of Directors.
West Roxbury Main Streets Committee	West Roxbury Main Streets is a local non-profit organization dedicated to fostering and promoting a vital and thriving business district.	A Senior Vice President of the Bank is a member of the Board of Directors.
West Roxbury YMCA	The West Roxbury YMCA is dedicated to improving the health of mind, body, and spirit of individuals and families in our communities. We welcome men and women, boys and girls of all incomes, faiths and cultures.	A Vice President of the Bank is a member of the Board of Directors.
YWCA Boston	YWCA Boston will incrementally reduce systemic racial and gender disparities and improve social cohesion in Boston neighborhoods where health, educational and safety inequities are most significant. It does this by working across racial, religious, gender and economic divides.	A Vice President of the Bank is on the Board of Directors and Finance Committee.
Catholic Charities of Boston	Catholic Charities of Boston offers the following services: Basic Needs, Child Care, Children & Youth, Community Interpreter Services, Counseling, Education, Elders, Families, Haitian Multi-Service Center, Mentoring & Tutoring, Nurse Aide, Post-Adoption, Refugee & Immigrants, Shelter, Sunset Point Camp, Teen Center at St. Peter's, and Visiting Nurse Services.	An Executive Vice President of the Bank is a member of the Board of Trustees.
Hyde Park Board of Trade	The purpose of the organization is to assist in promoting and improving the business, educational and civic interests of the Hyde Park district of the city of Boston.	A Bank Assistant Vice President is the Recording Secretary and Acting Treasurer.

SOURCE: Internal Bank Records

## **Educational Services and Seminars**

Bank officers and employees have participated in seminars and other events sponsored by the Bank during the evaluation period. These events provide opportunities for Bank representatives to inform those in attendance about the products and services offered by the Bank and to gain information about unmet credit needs in the assessment area.

During the examination period, the Bank held 6 first-time homebuyer seminars at locations throughout its assessment area. Topics included: getting ready for home ownership; what is a pre-qualification; what is a pre-approval; advantages of home ownership; and required purchase documentation.

The Bank has fully funded a financial literacy program for elementary school students in its assessment area called “Miss Money and Her Coins.” Students are taught basic money management principles by Ms. Money and her students (the Coins) through an interactive musical. Topics include “wants vs. needs”, ways to make money, how to save money, and responsible money management. The students are provided with a workbook to reinforce

learning (funded and developed by the Bank's Foundation). Since its inception in November 2011, the program has put on 50 performances at 34 schools and community events.

### **Other Community Development Services**

In 2011, the Bank began participating in the Interest on Lawyers' Trust Accounts (IOLTA). Interest earned on the account is utilized to help fund improvements in the administration of justice and delivery of legal services to low-income clients. The Bank contributed \$14,321 in interest for the period from 2011 to May 28, 2012. Because the Bank goes above and beyond by paying an interest rate of at least 1.0 percent, it has been named a Leadership Institution by the IOLTA Committee.

The Bank participates in the Massachusetts Community and Banking Council's (MCBC) Basic Banking in Massachusetts program. This statewide program is designed to offer low-cost checking and savings accounts to low- and moderate-income individuals.

The Bank collaborates with Ecumenical Social Action Committee (ESAC) of Jamaica Plain in its Sustainable Homeownership Program. The goal of the program is to prevent needless home foreclosures. Homeowners on the verge of foreclosure are counseled by ESAC and referred to participating lenders such as the Blue Hills Bank.

### **RESPONSE TO CRA COMPLAINTS**

A review of FDIC and Division records, as well as the Public File maintained by the Bank pursuant to the Community Reinvestment Act, disclosed no complaints relating to the Bank's CRA performance.

## **APPENDIX A**

### **Fair Lending Policies and Practices**

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

Blue Hills Bank's fair lending performance was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 2.3 101, the Division's Community Reinvestment and Fair Lending Policy. A review of the public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination.

The Bank has a written Fair Lending Policy. The Bank proactively and affirmatively supports the fair lending process through fair, but flexible lending policies. The Bank employs a second review process. All employees are provided with training appropriate to their job description and their responsibilities in fair lending issues.

No violations of the substantive provisions of the Equal Credit Opportunity Act or related laws and regulations were identified during the examination.

#### **MINORITY APPLICATION FLOW**

The Bank's LARs for 2010 and 2011 were reviewed to determine if the application flow from the different racial and ethnic groups within the Bank's assessment area was reflective of the assessment area's demographics.

According to the 2000 U.S. Census Data, the Bank's assessment area contained a total population of 808,711 individuals of which 34.2 percent are minorities. The assessment areas minority and ethnic population is 17.7 percent Black/African American, 5.1 percent Asian, 0.2 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 7.7 percent Hispanic or Latino and 3.4 percent other.

For 2010 and 2011, the Bank received 557 HMDA reportable loan applications from within its assessment area. Of these applications, 103 were received from minority applicants, of which 29 or 28.2 percent resulted in originations. The Bank also received 21 applications from ethnic groups of Hispanic origin within its assessment area of which 5 or 23.8 percent were originated.

The Bank's level of lending was compared with that of the aggregate's lending performance levels for the most recent year that data was available, the year 2010. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

The Bank's 2010 performance was above the 2010 aggregate's performance level for both minority and ethnicity. The Bank received 16.8 percent for minorities while the aggregate was 13.2 percent. The percentage of Hispanic and joint applications was a total of 3.5 percent while the aggregate was 2.7 percent. Refer to the table below for information on the Bank's minority application flow as well as the aggregate lenders (excluding the Bank) in the Bank's assessment area.

MINORITY APPLICATION FLOW								
RACE	Bank 2010		2010 Aggregate Data		Bank 2011		Bank TOTAL	
	#	%	#	%	#	%	#	%
American Indian/ Alaska Native	2	0.7	88	0.1	0	0.0	2	0.4
Asian	9	3.1	4,039	6.4	7	2.6	16	2.9
Black/ African American	30	10.5	3,146	5.0	43	15.9	73	13.1
Hawaiian/Pac Isl.	0	0.0	111	0.2	0	0.0	0	0.0
2 or more Minority	1	0.4	25	0.0	0	0.0	1	0.2
Joint Race (White/Minority)	6	2.1	918	1.5	5	1.9	11	1.9
<b>Total Minority</b>	<b>48</b>	<b>16.8</b>	<b>8,327</b>	<b>13.2</b>	<b>55</b>	<b>20.4</b>	<b>103</b>	<b>18.5</b>
White	205	71.4	40,426	64.1	178	65.9	383	68.8
Race Not Available	34	11.8	14,290	22.7	37	13.7	71	12.7
<b>Total</b>	<b>287</b>	<b>100.0</b>	<b>63,043</b>	<b>100.0</b>	<b>270</b>	<b>100.0</b>	<b>557</b>	<b>100.0</b>
<b>ETHNICITY</b>								
Hispanic or Latino	8	2.8	1,159	1.8	9	3.3	17	3.1
Not Hispanic or Latino	246	85.7	47,043	74.6	225	83.3	471	84.5
Joint (Hisp/Lat /Not Hisp/Lat)	2	0.7	540	0.9	2	0.8	4	0.7
Ethnicity Not Available	31	10.8	14,301	22.7	34	12.6	65	11.7
<b>Total</b>	<b>287</b>	<b>100.0</b>	<b>63,043</b>	<b>100.0</b>	<b>270</b>	<b>100.0</b>	<b>557</b>	<b>100.0</b>

Source: US Census, 2010 and 2011 HMDA LAR, 2010 HMDA Aggregate Data

The Bank's minority application flow, when compared to the aggregate's lending performance levels and the assessment area demographics, is deemed to be good.



**APPENDIX B**  
**Loss of Affordable Housing – Massachusetts Division of Banks**

The Division's regulation 209 CMR 46.22(2)(g) requires that the evaluation of the lending performance of a large institution include a review of its efforts to forestall the loss of affordable housing. The Division reviews the institution's loans to ensure that there is no undue concentration or a systematic pattern of lending resulting in the loss of affordable housing units.

Blue Hills Bank's development of credit products with flexible lending criteria, participation in flexible lending programs, community development lending, and lending to low- and moderate-income borrowers has assisted low- and moderate-income individuals to remain in their neighborhoods.

**APPENDIX C**  
**Metropolitan Area (reviewed using limited scope procedures)**

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE PROVIDENCE-NEW BEDFORD-FALL RIVER RI-MA MSA**

Two of the towns in the Bank's assessment area, Mansfield and Easton, are located in the Providence-New Bedford-Fall River MSA. The Bank operates no banking offices or remote deposit-taking facilities in this area.

The Providence-New Bedford-Fall River MSA portion of the Bank's assessment area contains 5.5 percent of the total assessment area's population, 5.9 percent of its family households, and 6.8 percent of owner-occupied housing units. The Providence-New Bedford-Fall River MSA portion of the assessment area is made up of six census tracts, all of which are upper-income.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE PROVIDENCE-NEW BEDFORD-FALL RIVER RI-MA MSA**

Approximately 1.3 percent of home loans originated by the Bank in its assessment area were within the Providence-New Bedford-Fall River MSA. Since all census tracts are upper income, an analysis of loan distribution by geography was not conducted. An analysis of loans by borrower income level shows that all of the loans originated to middle- and upper-income borrowers. No community development loans originated in this MSA during this examination period. However, most of the bank's flexible lending programs are available within the MSA.

**APPENDIX D**  
**Metropolitan Area (reviewed using limited scope procedures)**

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE BOSTON-QUINCY-CAMBRIDGE, MA-NH MSA:**

The Boston-Quincy-Cambridge, MA-NH MSA contains 15 of the 17 towns and the 8 Boston neighborhoods that comprise the Bank's assessment area. This MSA also contains all of the Bank's retail offices and remote deposit-taking facilities.

The Boston-Quincy-Cambridge, MA-NH MSA portion of the Bank's assessment area contains 94.5 percent of the total assessment area's population, 94.1 percent of its family households, and 93.2 percent of owner-occupied housing units. The Boston-Quincy-Cambridge, MA-NH MSA portion of the assessment area contains all of the assessment area's low- and moderate-income geographies.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE BOSTON-QUINCY-CAMBRIDGE, MA-NH MSA:**

The Boston-Quincy-Cambridge, MA-NH MSA accounts for 98.7 percent of all home loans. The area also accounts for all community development loans, and the vast majority of the Bank's community development investments and services, and is the primary target of its innovative and flexible loan programs. Thus, the Bank's CRA performance in its assessment area as a whole closely reflects its performance in the Boston-Quincy-Cambridge, MA-NH MSA.

## **APPENDIX E**

### ***General Definitions***

#### **GEOGRAPHY TERMS**

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

## **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

### **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## APPENDIX F - INVESTMENT DEFINITIONS

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

## **APPENDIX G**

### **STANDARD PE LANGUAGE**

#### **LENDING TEST**

##### **Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

##### **Community Development Lending:**

###### **Performance Criteria**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

##### **Innovative and Flexible Lending Practices:**

###### **Performance Criteria**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.



## **INVESTMENT TEST**

### **Scope of Test**

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

## **SERVICE TEST**

### **Scope of Test**

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 1196 River Street, Boston, MA 02136.

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.